

Nomura Real Estate Holdings, Inc.
Briefing session of the FY25/3 3Q financial results
(held on January 30, 2025)
Q&A Summary

Date & Time : Thursday, January 30, 2025, 5:00 p.m. - 6:00 p.m.
Attendees : Toshihide Tsukasaki, Executive Officer, Group CFO
Hidehiro Sasaki, General Manager, Corporate Communications Dept.

[Revision of earnings forecast]

Q. I would like to know the reason for the upward revision of the forecast for the Overseas Business Unit. Can we expect cases where you will participate in a new project and record a profit during the fiscal year going forward?

A. A large development project, Royal Island in Vietnam, contributed to the financial results. We had expected to start recording profit in FY26/3, but sales progressed better than expected. As a result, we were able to record profit this quarter. In addition, we decided to participate in another city block in Royal Island in FY25/3. In this city block, we took on a responsibility as an organizer of the JV consortium to gather Japanese companies to become partners, and received fees from partners. These were the factors behind the upward revision. Going forward, we will continue to position the overseas business as a growth driver on a medium- to long-term basis, and similar cases may occur in the future. However, please be understanding that the volume of overseas business is not large at the moment, and that there is volatility in financial results from year to year. (Tsukasaki, CFO)

Q. Are the upward revisions to the forecasts for the Property Brokerage & CRE Business Unit and Property & Facility Management Business Unit due to the impact of specific projects, or are they the result of a steady accumulation of results generally? What is the reason for the downward revision of 1.5 billion yen in business profit in the Other and Adjustments segment?

A. Property Brokerage & CRE Business Unit performed well overall. Retail sales were strong due to the strong second-hand housing market. The middle business was also strong due to the increasing need of high-net-worth individuals to buy and sell real estate for investment and inheritance purposes. In addition, Japanese companies are increasingly looking for ways to improve capital efficiency, and the need to sell properties is growing. Together with the need for funds to acquire real estate, they are driving an increase in transactions of wholesale business. In the Property & Facility Management Business Unit, both property and facility management and construction ordered business are performing well. In addition to the increases of the properties under management, negotiations with condominium and building owners to increase management fees in response to rising inflationary costs are progressing better than expected at the beginning of the fiscal year. Other and adjustments were impacted by expenses related to the relocation of the head office in the next fiscal year and increased consolidation adjustments between Business Units. (Tsukasaki, CFO)

[Stock price]

Q. Your PBR is currently around 1x, and since the BPS will increase by the end of this fiscal year, I don't think you will exceed a PBR of 1x unless the share price increases more. Since the share price is not rising even though you have achieved a 10% ROE, what do you think you can do to improve the share price?

A. We have achieved a ROE of 10%, which is above the cost of capital that we assume. To improve

the share price in this situation, we believe that we need to raise expectations for future growth. To do this, we need to indicate our capital allocation plan for growth, in addition to delivering strong financial results. (Tsukasaki, CFO)

[Construction cost]

Q. I would like to know the impact of rising construction costs on the profitability of development projects. In particular, what is the impact on the recently reported Nakano and Tsudanuma projects and the BLUE FRONT SHIBAURA N tower?

A. Rising construction costs tend to affect large projects, especially high-rise tower condominiums. However, we expect to secure a certain level of profit since it has established a business plan and land acquisitions with a reserve for future cost increases. Although the impact is becoming apparent in some large-scale projects such as Nakano and Tsudanuma, these projects have not been abandoned, and plans and schedules are being reviewed with the aim of restarting them. Of the approximately 2 trillion yen land bank of housing sales, approximately 900 billion yen is for redevelopment and reconstruction projects, of which 40% have already started of construction. The other 40% are projects that we assume will be able to succeed operations. For the remaining 20%, or approximately 200 billion yen, there is a possibility that plans and schedules will be revised. The overall land bank is approximately 2 trillion yen, so the impact will be limited. Although the construction of BLUE FRONT SHIBAURA N tower will be affected by rising construction costs, we will consider the profitability of S tower and N tower as a single project. We are currently discussing with the general contractor, and are moving forward to ensure completion of construction on schedule as planned. (Tsukasaki, CFO)

[Residential Development Business Unit]

Q. What is the gross profit ratio assumptions for housing sales in FY26/3.

A. We expect that the housing scheduled to be recorded in the next fiscal year and thereafter will be affected by higher construction costs than in the current fiscal year. However, the gross profit ratio is expected to exceed the 20-21% level we have set as our hurdle rate. (Tsukasaki, CFO)

Q. Are contracts for housing sales scheduled to be recorded in the FY26/3 progressing?

A. Sales are strong. Although operating revenue forecasts for FY26/3 have not yet been finalized, approximately 50% of the expected revenues have already been contracted. (Tsukasaki, CFO)

[Commercial Real Estate Business Unit]

Q. Was the profit ratio on property sales until 3Q high? Also, as of 3Q, you have already recorded gross profit from property sales of 31.0 billion yen, do you plan to sell more in 4Q?

A. In both the Residential Development and Commercial Real Estate Business Unit, property sales have been strong and have secured sufficient profit ratio. With other businesses performing well, we intend to reduce the volume of property sales and steadily achieve the profit plan for the next fiscal year going forward. Gross profit from property sales for the full year is expected to be about 5.0 billion yen for the Residential Development Business Unit and between 30.0 and 35.0 billion yen for the Commercial Real Estate Business Unit. In addition, we will decide on the timing of sales for properties that the timing of sales has been changed, while enjoying the effects of rising rents. (Tsukasaki, CFO)

Q. Land acquisition for offices and logistics facilities is progressing but is also expected to be affected by the increase in construction costs. What kind of initiatives are being taken to balance income and expenditure? Are land acquisitions being carried out with the assumption that rents will rise?

A. We have been particularly active in acquiring logistics facilities through negotiated transactions not a bid. We are acquiring properties that will generate a profit even if we assume that construction costs will rise. In addition, H¹O, small office with services, has strong tenant demand and high unit rents, so we are able to absorb the rise in construction costs and acquire land. As we can also expect an overall rise in rents in the market in the near future, it will be possible to acquire more land if we reflect this in our business plan. (Tsukasaki, CFO)
(See the [Landport official website](#) (only in Japanese))
(See the [H¹O official website](#))

Q. What is the rate of office lease offers at BLUE FRONT SHIBAURA?

A. There has been no change from the 70% we have announced so far. We believe that rents are on an upward trend. We are receiving inquiries from multiple tenants, so we are not in a hurry to lease, and are proceeding in a way that will ensure we receive sufficient rent. The completion of construction next month will also provide another advantage for leasing. Since it will be possible to actually see the property, customers will be able to better understand the value of the property. (Tsukasaki, CFO)

Q. Market data shows that vacancy rates and rents for office buildings appear to be good, but what is the situation for your properties?

A. Not just at BLUE FRONT SHIBAURA, but also as we move forward with leasing at PMO and H¹O, we are seeing a lot of activity from tenants, and we are feeling the positive market environment. Of the tenants whose leases were up for renewal, we were able to increase rents for approximately 30%. We expect this trend of rising rents to become more common in the future. (Tsukasaki, CFO)
(See the [PMO official website](#))
(See the [H¹O official website](#))

Q. Vacancy rates for logistics facilities are rising in the market, but will you continue land acquisitions for logistics facilities? Also, how is the leasing process going at your properties? What kind of differentiation are you able to achieve?

A. In addition to the land acquisition results up to the third quarter, there are multiple large properties under negotiation, and we expect to make more progress by the end of this fiscal year. The vacancy rate is high when looking at the market as a whole, but there are differences depending on the area, so we think it is important to assess the area. As a differentiating factor for our company, we are not only providing facilities, but also working to provide products and services that can contribute to operations within the warehouse. For example, “Techrum” is working to provide a place for matching tenant companies and logistics service companies and to promote problem solving. In addition to multi-tenant facilities that accept tenants from all industries, we are also working on the development of Category-Multi facilities that target specific categories of industry and pursue ease of use for each industry. The background to these efforts is that when we carry out leasing, our own sales staff visit customers directly to understand their needs. Around 90% of the properties for which we sign contracts are the result of direct sales, and we listen to the needs and issues of logistics through direct sales and use this to provide products and services. (Tsukasaki, CFO)
(See the Problem-solving logistics DX promotion platform: <https://www.nomura-landport.com/techrum/> (only in Japanese))

【Overseas Business Unit】

Q. Is the housing sales market in Vietnam improving?

A. Interest rate hikes have slowed and housing mortgages are coming down. Although the pace of sales has not fully returned to its peak, there is a sense that sales are recovering. (Tsukasaki, CFO)

Q. The business profit forecast for the FY25/3 is revised upward to 6.0 billion yen, and do you expect to achieve 6.0 billion yen or more for the next fiscal year as well? We had expected overseas business profit to grow slowly, but is the situation better than expected?

A. As for the overseas business, since the business volume is not yet large, we assume that there will be a certain degree of volatility in business profits in a single fiscal year. We intend to steadily increase business profits over the medium- to long-term. (Tsukasaki, CFO)

【Property Brokerage & CRE Business Unit】

Q. Why is the Property Brokerage & CRE Business Unit performing well? Will the strong performance continue in the future amid rising interest rates? What are the factors behind the year-on-year increase in commission rates?

A. In the retail business, there is strong demand for second-hand housings, especially in central Tokyo. In the middle business, needs vary from actual demand, inheritance measures, and investment, especially among high-net-worth individuals, and we expect this trend to continue for the time being. With regard to wholesale business, we continue to see domestic companies reducing their assets and selling unprofitable retail stores. In addition, overseas investors are keen to buy Japanese real estate, driven by the need to diversify their investments and assets in light of geopolitical risks. (Tsukasaki, CFO)

The commission rate for the middle business is high this fiscal year. The main factor in the difference from the previous fiscal year is that wholesale business, which is driving up the overall commission rate. (Sasaki)